Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: May 29, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 closed up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.9%. Chinese markets were higher, with the Shanghai Composite up 0.7% from its previous close and the Shenzhen Composite up 1.4%. US equity index futures are signaling a higher open.

With 484 companies having reported so far, S&P 500 earnings for Q1 are running at $64.20 per share compared to estimates of $60.75, which is up 7.3% from Q1 2024. Of the companies that have reported thus far, 77.5% have exceeded expectations, while 18.8% have fallen short of expectations.

The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our website. We highlight recent publications below with new items of the day in bold.

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"Why Greenland Matters" (5/27/25) + podcast	"The Looming Battle for US Monetary Policy" (5/19/25) + podcast	Q2 2025 Report Q2 2025 Rebalance Presentation	Confluence of Ideas Podcast Value Equity Quarterly Update

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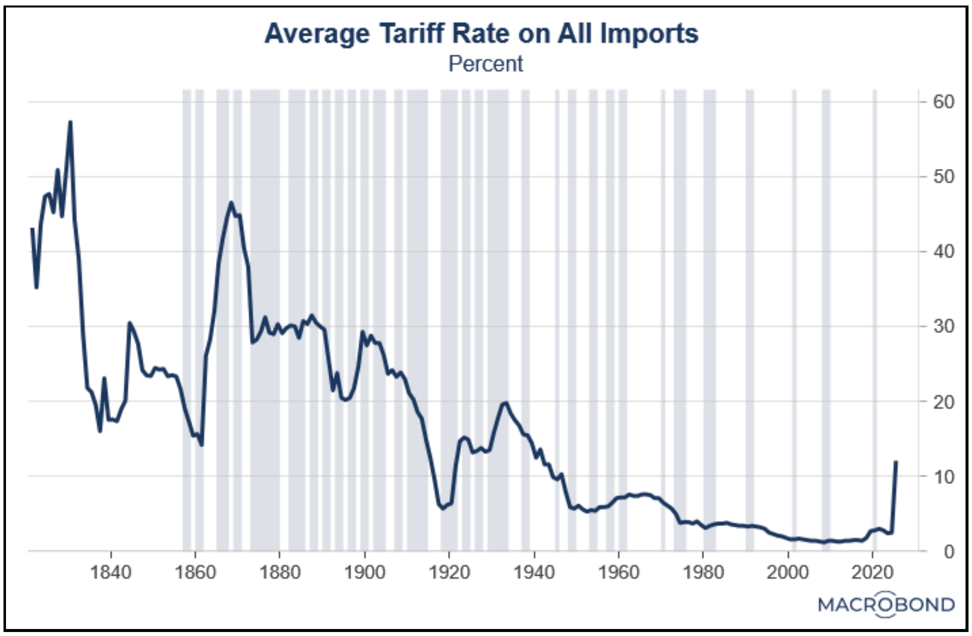
Good morning! Markets are actively digesting this morning's landmark court ruling on tariffs. Today's *Comment* examines how the Trump administration might respond to this latest trade policy setback, discusses the market implications of Nvidia's stronger-than-expected earnings, and reviews other notable news moving global markets. As always, we'll wrap up with a comprehensive overview of today's most important domestic and international economic data releases.

No TACO For Trump: A court ruling has delivered a major setback to the US president's trade agenda, yet his supporters are pressuring him not to retreat.

- The US Court of International Trade ruled that the president lacked the authority to impose tariffs under the emergency economic powers legislation he cited. This decision will invalidate certain reciprocal tariffs enacted on April 2, while leaving in place sector-specific tariffs on automobiles and steel. Although the White House has stated it will appeal the ruling, the verdict raises doubts about the legality of his broader tariff strategy.

- The ruling is expected to halt 6.7% of levies announced this year. However, the president appears to have alternative options to circumvent the court's decision. According to Goldman Sachs, the administration could implement Section 122 tariffs for up to 150 days as a replacement for reciprocal tariffs, while simultaneously applying Section 301 and 232 tariffs on a country-specific basis.
- That said, the ruling could place the White House in a difficult position as it seeks to negotiate trade agreements with other nations. In recent weeks, tariff threats have successfully pressured several countries into trade discussions. Notably, the European Union, which initially pushed for complete tariff elimination, has now softened its stance, seeking reduced tariffs in exchange for concessions in other areas.



- Additionally, Trump faces mounting pressure to maintain his stance, particularly given concerns over market stability. The White House was compelled on Wednesday to push back against claims that "Trump Always Chickens Out," a narrative that belittles the so-called "Trump put," the perception that the president will consistently safeguard equity markets.
- While the court's decision represents a setback for the administration, it is unlikely to be the final word on the matter as the White House prepares its appeal. Investors should therefore view the tariff reversal with caution. Our primary focus will be on the president's response, as he may use this ruling to reinforce his protectionist stance rather than retreat. Given the potential for increased volatility, we maintain that conservative investors should adopt a wait-and-see approach in the current environment.

AI Rally Continues: Big tech stocks rallied on Wednesday after the world's leading chipmaker reported stronger-than-expected earnings, reinforcing confidence in the sector's growth.

- Nvidia surpassed analyst expectations with a strong quarterly revenue of $44.1 billion, marking 70% year-over-year growth despite significant headwinds from US export controls. The results comfortably exceeded Wall Street's $43.3 billion consensus estimate, demonstrating remarkable resilience in the face of geopolitical challenges. For the current quarter, the chipmaker issued bullish guidance of $45 billion in revenue while disclosing an anticipated $8 billion hit from ongoing China sales restrictions.
- The earnings beat is poised to reinvigorate confidence in the AI rally, which has been largely driven by the seven biggest tech giants propelling the S&P 500. Recent concerns over US trade restrictions, particularly on exports, had raised fears that tech earnings could suffer and potentially dampen investment enthusiasm. Yet, Nvidia's robust results suggest that major players remain committed to AI investments and undeterred by global economic uncertainty.

- Despite reporting robust earnings, Nvidia raised alarms over potential new US export controls on China. In a direct appeal to President Trump, CEO Jensen Huang warned that existing restrictions could completely shut Nvidia out of the Chinese market — a devastating outcome for the chipmaker's revenue. His plea follows reports that the Trump administration is considering expanded bans, including cutting off sales of critical chip design software to China.
- The strong earnings report indicates that high-quality risk assets will remain appealing to investors navigating ongoing economic uncertainty. Companies with robust earnings growth potential and minimal foreign supply chain exposure are particularly well-positioned in this environment. Additionally, firms aligned with government strategic priorities, such as AI, present compelling opportunities for investment.

FOMC Meeting Minutes: According to its meeting minutes, the Federal Reserve opted to hold interest rates steady as it continues to navigate the economic fallout from the trade war.

- During the FOMC meeting held on May 6-7, Fed officials acknowledged they might face difficult trade-offs when deciding which aspect of their dual mandate — price stability or full employment — to prioritize. Their unease stemmed from navigating turbulent financial market conditions, including heightened volatility in equities and bonds. Adding to their concerns was the dollar's significant depreciation, which further complicated the economic outlook.
- On a positive note, Fed officials expressed cautious optimism that households could weather the impact of tariffs. While acknowledging rising delinquencies on auto and credit card loans, they noted that household balance sheets remain fundamentally strong. Additionally, some policymakers suggested that lower energy prices might help offset trade-related pressures. There was even hope that consumer spending could gradually shift from goods to services, further easing economic strains.
- On the other hand, Fed officials also highlighted several growing vulnerabilities in the economy. One key area of concern is rising leverage within the financial sector, with banks potentially exposed to interest rate risks and hedge funds carrying significant debt. Additionally, they expressed concerns about the weakening status of US assets as a safe haven, raising questions about the economy's long-term stability.
- Regarding policy, there appears to be broad agreement that significant uncertainty will persist until the president finalizes tariff rates. The staff economic outlook projects inflation will prove transitory, with a temporary increase this year and next before returning to the 2% target by 2027. Additionally, staff estimates suggest the unemployment rate may rise above its natural level by year-end.
- The meeting minutes indicate that the central bank may refrain from cutting rates at its next meeting and could delay rate cuts this year if inflationary pressures persist. This stance would likely push bond yields higher while dampening bond prices. Moreover, elevated interest rates may weigh on equity markets, particularly riskier assets.

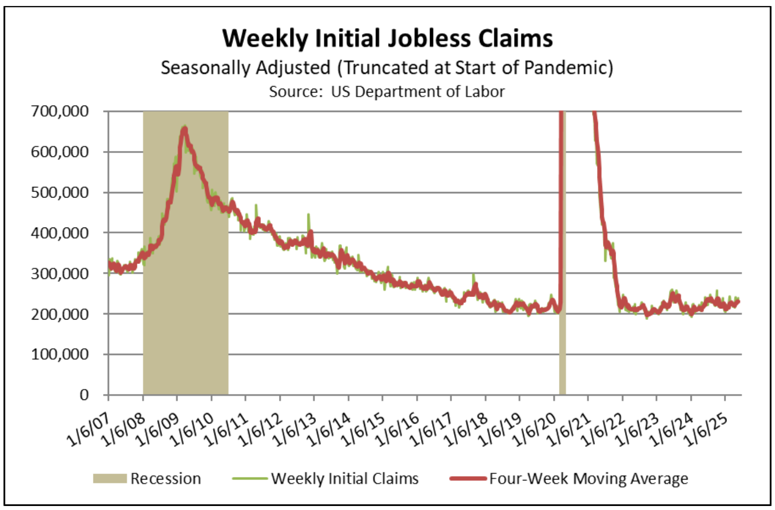
DOGE Future: Tesla CEO Elon Musk has officially stepped down from overseeing the cost-cutting initiative, though the future of his efforts remains uncertain.

- The world's richest man has stepped down from his role to dedicate more time to his business ventures. His position as a "special government employee" was capped at 130 days, meaning it was always expected to conclude by the end of the month. While leading the Department of Government Efficiency, he was tasked with identifying cost-saving measures to reduce government spending. While he successfully uncovered some inefficiencies, the effort fell far short of his ambitious $1 trillion savings target.
- However, he has submitted a list of $9.4 billion worth of proposed spending cuts to Congress, which must now decide whether to enact them into law. President Trump has urged lawmakers to prioritize these cuts, which include reduced funding for USAID and the Corporation for Public Broadcasting (CPB), the entity overseeing PBS and NPR.

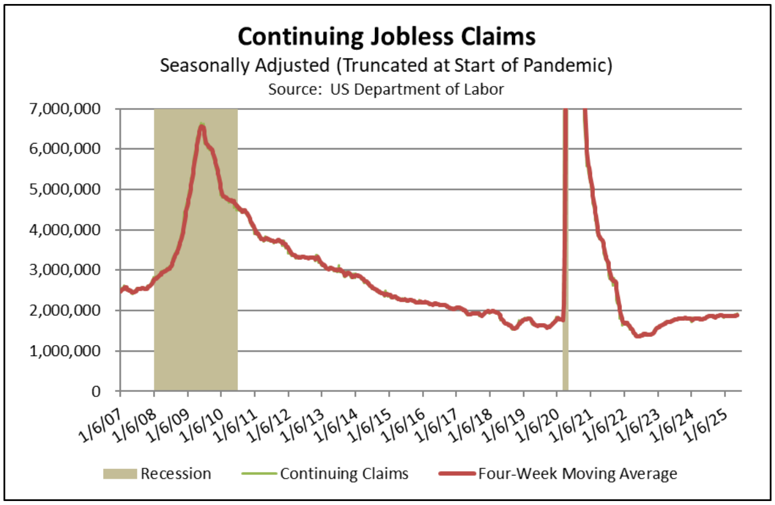
- While Musk may be departing his government role, sustained efforts will still be needed to address the nation's fiscal challenges. We believe the growing supply-demand imbalance in bond markets is exacerbating pressure on yields, particularly for long-term bonds. Consequently, we expect the DOGE initiative to persist in promoting fiscal discipline — a critical factor in restoring confidence among bond market participants.

US Economic Releases

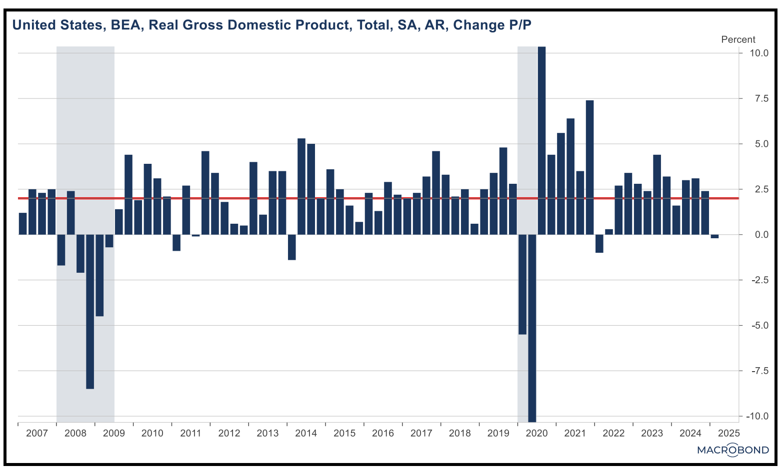
In the week ended May 24, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 240,000, above both the expected level of 230,000 and the previous week's revised level of 226,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 230,750 but remained relatively elevated. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



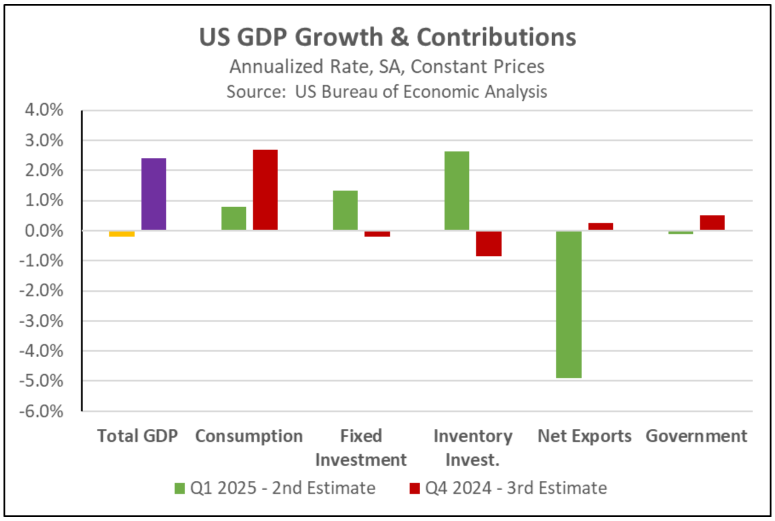
In the week ended May 17, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.919 million, above both the anticipated reading of 1.893 million and the prior week's revised reading of 1.893 million. The four-week moving average of continuing claims rose to 1,890,250. Excluding the pandemic era, the level of continuing claims is now at its highest since April 2018, providing substantial evidence that the demand for labor has softened and that those employees who do lose their jobs are now finding it hard to land a new one. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



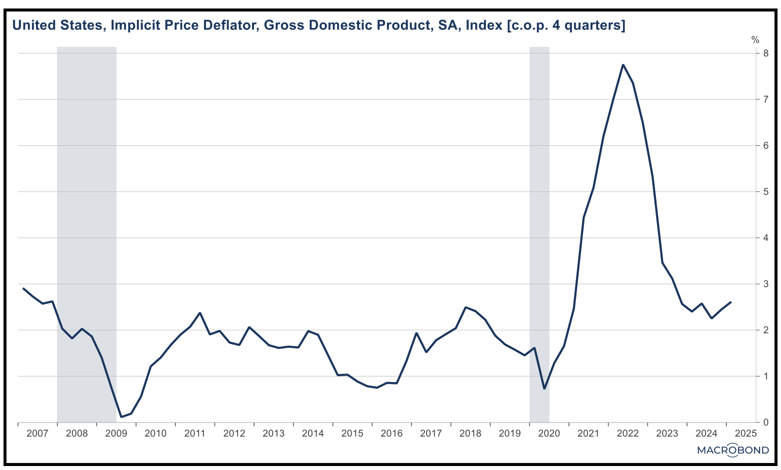
Separately, the Commerce Department released its second estimate of economic activity in the period from January through March. After stripping out seasonal factors and price changes, first-quarter ***gross domestic product (GDP)*** declined at an annualized rate of 0.2%, slightly better than expectations that the rate of contraction would be unchanged from the original estimate of 0.3%. The chart below shows the annualized growth rate of US GDP since just before the previous recession.



A close look at the details in the report shows that the main drag on activity in the quarter was net exports, reflecting a surge in purchases from abroad as importers tried to get ahead of the Trump administration's new tariffs. The surge in imports was partially offset by a jump in inventory investment, but it was nevertheless an important drag on growth. The chart below shows the contributions to the annualized growth rate in the first quarter.



The GDP report also includes the broadest measure of US price inflation. According to the report, the first-quarter ***GDP Price Index*** was up 2.6% from the same period one year earlier, matching the original estimate as expected. The chart below shows the year-over-year change in the GDP Price Index over the last several decades.



The table below lists the economic releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
10:00	Pending Home Sales	m/m	Apr	-1.0%	6.1%	**
10:00	Pending Home Sales NSA	y/y	Apr	2.7%	-0.1%	**
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
10:40	Austan Goolsbee Participates in Moderated Q&A	President of the Federal Reserve Bank of Chicago				
14:00	Adriana Kugler Gives Opening Remarks	Members of the Board of Governors				
16:00	Mary Daly Speaks in Fireside Chat	President of the Federal Reserve Bank of San Francisco				
20:25	Lorie Logan Gives Remarks, Speaks in Q&A	President of the Federal Reserve Bank of Dallas				

Foreign Economic News

We monitor numerous global economic indicators on a continuous basis. The most significant international news that was released overnight is outlined below. Not all releases are equally significant, thus we have created a star rating to convey to our readers the importance of the various indicators. The rating column below is a three-star scale of importance, with one star being the least important and three stars being the most important. We note that these ratings do change over time as economic circumstances change. Additionally, for ease of reading, we have also color-coded the market impact section, which indicates the effect on the foreign market. Red indicates a concerning development, yellow indicates an emerging trend that we are following closely for possible complications, and green indicates neutral conditions. We will add a paragraph below if any development merits further explanation.

Country	Indicator			Current	Prior	Expected	Rating	Market Impact
ASIA-PACIFIC								
Japan	Japan Buying Foreign Bonds	w/w	23-May	¥92.0b	¥2833.9b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	23-May	-¥524.7b	-¥241.4b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	23-May	-¥334.4b	-¥225.0b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	23-May	¥309.3b	¥715.3b		*	Equity and bond neutral
	Consumer Confidence Index	m/m	May	32.8	31.2	32.0	*	Equity and bond neutral
Australia	Private Capital Expenditure	q/q	1Q	-0.2%	-0.2%	-0.1%	**	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	May	34.8	47.7		*	Equity and bond neutral
	ANZ Business Confidence	m/m	May	36.6	49.3		**	Equity and bond neutral
EUROPE								
Germany	Import Price Index	y/y	Apr	-0.4%	2.1%	0.0%	**	Equity and bond neutral
Germany	Unemployment Change	m/m	May	34.0k	6.0k	12.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	May	6.3%	6.3%	6.3%	**	Equity and bond neutral
Italy	Consumer Confidence Index	m/m	May	96.5	92.7	93.0	***	Equity bullish, bond bearish
	Manufacturing Confidence	m/m	May	86.5	85.8	86.2	***	Equity and bond neutral
	Economic Sentiment	m/m	May	93.1	91.6		**	Equity and bond neutral
	Industrial Sales WDA	y/y	Mar	-1.1%	-1.6%		*	Equity and bond neutral
Russia	PPI	y/y	Apr	2.7%	5.9%		***	Equity and bond neutral
	Industrial Production	y/y	Apr	1.5%	0.8%	1.3%	***	Equity and bond neutral
AMERICAS								
Brazil	FGV Inflation IGPM	y/y	May	7.02%	8.50%	7.16%	***	Equity and bond neutral
	Total Outstanding Loans	m/m	Apr	6597b	6555b		**	Equity and bond neutral
	National Unemployment Rate	m/m	Apr	6.6%	7.0%		*	Equity and bond neutral

Financial Markets

The table below highlights some of the indicators that we follow daily. Again, the color coding is similar to the foreign news description above. We will add a paragraph below if a certain move merits further explanation.

Fixed Income	Today	Prior	Change	Trend
3-mo T-bill yield (bps)	422	423	-1	Up
U.S. Sibor/OIS spread (bps)	433	433	0	Up
U.S. Libor/OIS spread (bps)	433	433	0	Up
10-yr T-note (%)	4.52	4.48	0.04	Down
Euribor/OIS spread (bps)	201	202	-1	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Up
Pound	Down			Up
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
Bank of Korea Base Rate	2.50%	2.75%	2.50%	On Forecast

Commodity Markets

The commodity section below shows some of the commodity prices and their change from the prior trading day, with commentary on the cause of the change highlighted in the last column.

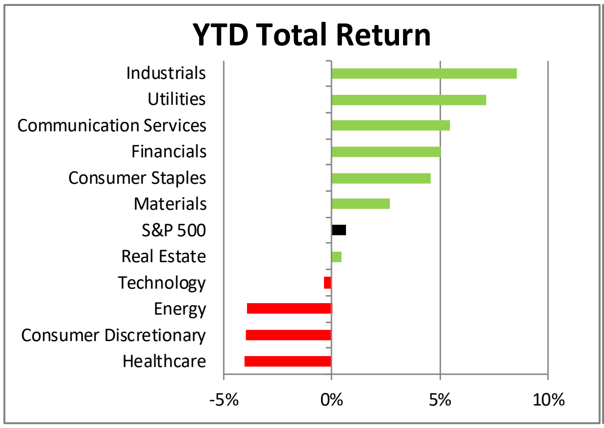
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$65.27	$64.90	0.57%	
WTI	$62.19	$61.84	0.57%	
Natural Gas	$3.56	$3.56	0.17%	
Crack Spread	$25.03	$24.84	0.77%	
12-mo strip crack	$21.84	$21.69	0.67%	
Ethanol rack	$1.90	$1.90	-0.33%	
Metals				
Gold	$3,302.77	$3,287.48	0.47%	
Silver	$33.47	$32.98	1.46%	
Copper contract	$470.90	$467.45	0.74%	
Grains				
Corn contract	$446.75	$451.00	-0.94%	
Wheat contract	$528.00	$530.25	-0.42%	
Soybeans contract	$1,049.50	$1,048.50	0.10%	
Shipping				
Baltic Dry Freight	1,303	1,296	7	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.80		
Gasoline (mb)		0.90		
Distillates (mb)		0.64		
Refinery run rates (%)		0.6%		
Natural gas (bcf)		100		

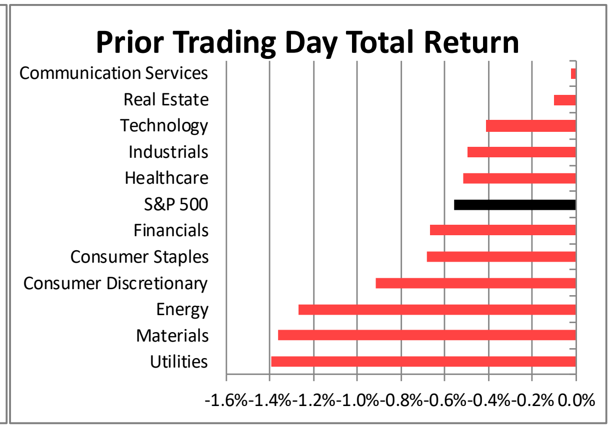
Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the entire eastern half of the country, with cooler-than-normal temperatures in the Far West. The forecasts call for wetter-than-normal conditions in the Great Plains and Florida, with dry conditions in the Desert Southwest.

Data Section

US Equity Markets – (as of 5/28/2025 close)

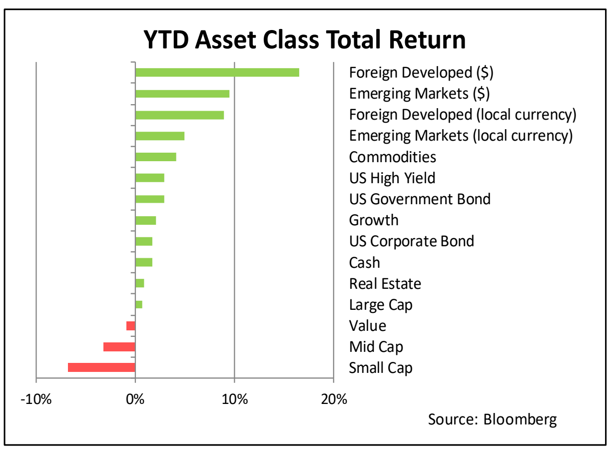




(Source: Bloomberg)

These S&P 500 and sector return charts are designed to provide the reader with an easy overview of the year-to-date and prior trading day total return. Sectors are ranked by total return; green indicating positive and red indicating negative return, along with the overall S&P 500 in black. These charts represent the new sectors following the 2018 sector reconfiguration.

Asset Class Performance – (as of 5/28/2025 close)

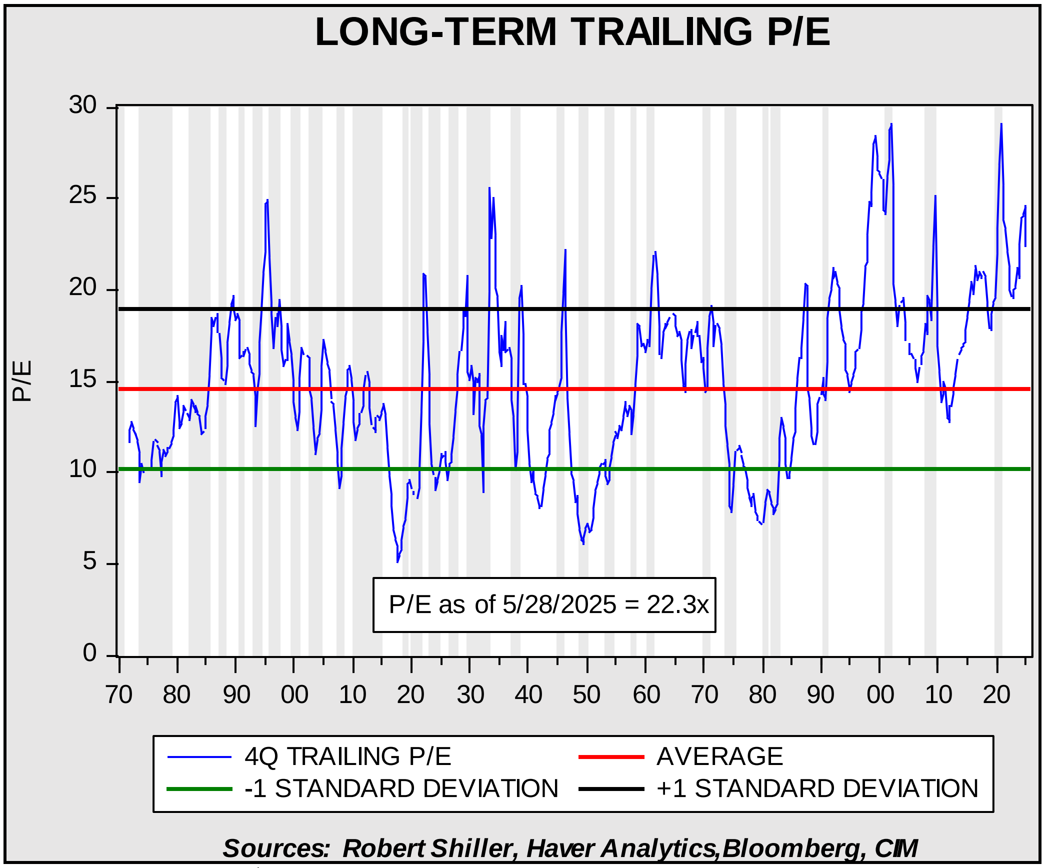


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

Asset classes are defined as follows: Large Cap (S&P 500 Index), Mid Cap (S&P 400 Index), Small Cap (Russell 2000 Index), Foreign Developed (MSCI EAFE (USD and local currency) Index), Real Estate (FTSE NAREIT Index), Emerging Markets (MSCI Emerging Markets (USD and local currency) Index), Cash (iShares Short Treasury Bond ETF), US Corporate Bond (iShares iBoxx $ Investment Grade Corporate Bond ETF), US Government Bond (iShares 7-10 Year Treasury Bond ETF), US High Yield (iShares iBoxx $ High Yield Corporate Bond ETF), Commodities (Bloomberg total return Commodity Index), Value (S&P 500 Value), Growth (S&P 500 Growth).

P/E Update

May 29, 2025



Based on our methodology,[1] the current P/E is 22.3x, unchanged from our last report. The rise in the stock price index offset by an increase in earnings.

This report was prepared by Confluence Investment Management LLC and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.

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[1] This chart offers a running snapshot of the S&P 500 P/E in a long-term historical context. We are using a specific measurement process, similar to *Value Line*, which combines earnings estimates and actual data. We use an adjusted operating earnings number going back to 1870 (we adjust as-reported earnings to operating earnings through a regression process until 1988), and actual operating earnings after 1988. For the current quarter, we use the Bloomberg estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters (Q2, Q3, and Q4) and one estimate (Q1). We take the S&P average for the quarter and divide by the rolling four-quarter sum of earnings to calculate the P/E. This methodology isn't perfect (it will tend to inflate the P/E on a trailing basis and deflate it on a forward basis), but it will also smooth the data and avoid P/E volatility caused by unusual market activity (through the average price process). Why this process? Given the constraints of the long-term data series, this is the best way to create a long-term dataset for P/E ratios.